

Company Name	GasNet Limited
For Year Ended	30 June 2014

Schedule 14 Mandatory Explanatory Notes

(In this Schedule, clause references are to the Gas Distribution Information Disclosure Determination 2012)

1. This Schedule requires GDBs to provide explanatory notes to information provided in accordance with clauses 2.3.1, 2.4.21, 2.4.22, 2.5.1, and 2.5.2.
2. This Schedule is mandatory—GDBs must provide the explanatory comment specified below, in accordance with clause 2.7.1. Information provided in boxes 1 to 12 of this schedule is part of the audited disclosure information, and so is subject to the assurance requirements specified in section 2.8.
3. Schedule 15 (Voluntary Explanatory Notes to Schedules) provides for GDBs to give additional explanation of disclosed information should they elect to do so.

Return on Investment (Schedule 2)

4. In the box below, comment on return on investment as disclosed in Schedule 2. This comment must include information on reclassified items in accordance with clause 2.7.2.

Box 1: Explanatory comment on return on investment

GasNet achieved a post tax WACC of 6.83% and a vanilla WACC of 7.51%

Under clause 2.3.3 of the ID Determination GasNet is not required to disclose information in schedule 2(iii) and has elected not to disclose this information.

No items were reclassified.

Regulatory Profit (Schedule 3)

5. In the box below, comment on regulatory profit for the disclosure year as disclosed in Schedule 3. This comment must include:
 - 5.1 a description of material items included in ‘other regulatory line income’ other than gains and losses on asset sales, as disclosed in 3(i) of Schedule 3
 - 5.2 information on reclassified items in accordance with clause 2.7.2.

Box 2: Explanatory comment on regulatory profit

Other regulated income includes

- \$20K Contracting Revenue
- \$1K Sale of Network Stock

No items were reclassified.

Merger and acquisition expenses (3(iv) of Schedule 3)

6. If the GDB incurred merger and acquisitions expenditure during the disclosure year, provide the following information in the box below:
 - 6.1 information on reclassified items in accordance with clause 2.7.2
 - 6.2 any other commentary on the benefits of the merger and acquisition expenditure to the GDB.

<p>Box 3: Explanatory comment on merger and acquisition expenditure GasNet was not involved with any merger or acquisition during the disclosure year No items were reclassified.</p>

Value of the Regulatory Asset Base (Schedule 4)

7. In the box below, comment on the value of the regulatory asset base (rolled forward) in Schedule 4. This comment must include information on reclassified items in accordance with clause 2.7.2.

Box 4: Explanatory comment on the value of the regulatory asset based (rolled forward)

No assets have been reclassified.

Table 4(ii) – Unallocated Regulatory Asset Base

The Asset Disposals of \$7k relate to pipeline assets which were physically removed from service during the year and sold to scrap metal dealers.

Asset Disposals	
Asset Class	Disposal (\$000)
Intermediate Pressure Main Pipelines	\$ 1
Low Pressure Main Pipelines	\$ 3
Low Pressure Service Pipelines	\$ 2
Medium Pressure Service Pipelines	\$ 1
	\$ 7

Table 4(v) – Regulatory Depreciation

The treatment applied for the 30 June 2013 disclosures incorrectly attributed depreciation to “Depreciation – no standard life assets” for those assets that existed in the Initial RAB that did not have a specified Standard Physical Asset Life in Schedule A of the GDB IM Determination. This error was realised during the Commerce Commission’s Information Disclosure Workshop on 14 March 2014.

The error that occurred in 2013 has been corrected for the current disclosures and summarised in the following table.

Depreciation - No Standard Life Assets	
Asset Class	Depreciation (\$000)
Low Pressure Main Pipelines	\$ 15
Low Pressure Service Pipelines	\$ 11
Low Pressure Valves	\$ 1
Non-Network Assets	\$ 78
	\$ 105

It should be noted that the asset lives for the Low Pressure Assets referred to in the above table are the same as those for the equivalent Medium Pressure assets.

Table 4(vii) – Asset Category Transfers

In table 4(vii) the reduction by \$124k in the “Asset Category Transfers” for “Medium Pressure Main Pipelines” was due to an error in the RAB model where assets had been incorrectly assigned to Medium Pressure when they should have been Low Pressure. Accordingly the \$127k increase in the “Asset Category Transfers” for “Low Pressure Main Pipelines” includes the \$124k gain from the Medium Pressure Main Pipelines with the residual due to minor transfers and rounding.

As a result of the error referred to above, all assets have been reviewed and a high confidence level exists in respect of the asset categories assigned to individual assets in the RAB model.

Regulatory tax allowance: disclosure of permanent differences (5a(i) of Schedule 5a)

8. In the box below, provide descriptions and workings of the following items, as recorded in the asterisked categories in 5a(i) of Schedule 5a:
- 8.1 Income not included in regulatory profit / (loss) before tax but taxable
 - 8.2 Expenditure or loss in regulatory profit / (loss) before tax but not deductible
 - 8.3 Income included in regulatory profit / (loss) before tax but not taxable
 - 8.4 Expenditure or loss deductible but not in regulatory profit / (loss) before tax

Box 5: Regulatory tax allowance: permanent differences

8.3 Income of \$370K for revaluation as per schedules 3 and 4.

Regulatory tax allowance: disclosure of temporary differences (5a(vi) of Schedule 5a)

9. In the box below, provide descriptions and workings of items recorded in the asterisked category 'Tax effect of other temporary differences' in 5a(vi) of Schedule 5a.

Box 6: Tax effect of other temporary differences (current disclosure year)

There were no other temporary differences recorded for the disclosure year.

Related party transactions: disclosure of related party transactions (Schedule 5b)

10. In the box below, provide descriptions of related party transactions beyond those disclosed on schedule 5b including identification and descriptions as to the nature of directly attributable costs disclosed under clause 2.3.6(2)(b).

Box 7: Related party transactions

Other related party transactions not included in the regulatory disclosures include interest payments and advances to and from the shareholder Wanganui Gas Ltd

Cost allocation (Schedule 5d)

11. In the box below, comment on cost allocation as disclosed in Schedule 5d. This comment must include information on reclassified items in accordance with clause 2.7.2.

Box 8: Cost allocation

No Items have been reclassified.

Asset allocation (Schedule 5e)

12. In the box below, comment on asset allocation as disclosed in Schedule 5e. This comment must include information on reclassified items in accordance with clause 2.7.2.

Box 9: Commentary on asset allocation

No Assets have been reclassified.

Capital Expenditure for the Disclosure Year (Schedule 6a)

13. In the box below, comment on expenditure on assets for the disclosure year, as disclosed in Schedule 6a. This comment must include:
- 13.1 a description of the materiality threshold applied to identify material projects and programmes described in Schedule 6a;
 - 13.2 information on reclassified items in accordance with clause 2.7.2.

Box 10: Explanation of capital expenditure for the disclosure year

The projects and programmes identified are those that are typically covered as such in GasNet's Annual Plan and Asset Management Plan (where relevant) which are not considered to relate to the routine activities such as asset replacement and natural network growth. There is no specific financial threshold for reporting.

Operational Expenditure for the Disclosure Year (Schedule 6b)

14. In the box below, comment on operational expenditure for the disclosure year, as disclosed in Schedule 6b. This comment must include:
- 14.1 Commentary on assets replaced or renewed with Asset replacement and renewal operating expenditure, as reported in 6b(i) of Schedule 6b
 - 14.2 Information on reclassified items in accordance with clause 2.7.2
 - 14.3 Commentary on any material atypical expenditure included in operational expenditure disclosed in Schedule 6b, including the value of the expenditure, the purpose of the expenditure, and the operational expenditure categories the expenditure relates to.

Box 11: Explanation of operational expenditure for the disclosure year

All costs associated with asset replacement or renewals are incurred as Capital Expenditure so no costs are reported for this activity under Operational Expenditure.

Variance between forecast and actual expenditure (Schedule 7)

15. In the box below, comment on variance in actual to forecast expenditure for the disclosure year, as reported in Schedule 7. This comment must include information on reclassified items in accordance with clause 2.7.2.

Box 12: Explanatory comment on variance in actual to forecast expenditure

No Items have been reclassified.

Table 7(iii) – Operational Expenditure

Service Interruptions, Incidents and Emergencies – Due to the nature of incidents and emergencies on the network it is not possible to accurately forecast expenditure for this activity. The Forecast was based on previous 12 months actual costs that had been incurred at the time the forecast was prepared in June 2013. Whilst there was a reduction in the number of job cost codes created in the 12 months to 30 June 2014 compared to the previous year (35 in 2014 from 40 in 2013), the average cost per job was \$1,081 in 2013 compared to \$1,461 in 2014.

Business Support – The variation is due to a combination of factors but predominantly due to a significant reduction in work being performed by external service providers resulting in reduction in costs incurred and uncertainty of the impact on the allocation process during a period of significant change.

In both the 2013 and 2014 financial years GasNet faced significant additional regulatory and safety management compliance costs associated with the introduction of the new regimes and the associated systems development. Whilst it had been expected that much of this would be achieved by the use of external service providers, in reality this was not the case and in virtually every instance it was completed by GasNet's senior management, with external service providers engaged to undertake peer reviews and compliance validations. This has resulted in a far better outcome than had the work been outsourced as ownership, knowledge and understanding of the new systems is held within GasNet and there is no resultant dependency on persons or organisations external to GasNet. Whilst there has been a significant cost saving by completing the work in-house, it must be noted that it does not reflect the substantial hours that were spent by senior GasNet personnel in excess of their base hours, particularly during the 2013 calendar year.

With the stability in the cost allocations now apparent in the 2013 and 2014 disclosures and with the majority of new systems now in place, it is expected that forecasting in future years will be closer to the actual costs incurred, and that the forecast expenditure attributed to Business Support will reduce to levels reflecting current expenditure.

Table 7(v) – Insurance

The variance in actual insurance cost incurred compared to the forecast can be directly attributed to the network insurance and the difficulty in accurately forecasting annual premiums.

Information relating to revenues and quantities for the disclosure year

16. In the box below please explain reasons for any material differences between target revenue disclosed before the start of the pricing year in accordance with clauses 2.4.1 and 2.4.3(3), and total billed line charge revenue for the disclosure year as disclosed in Schedule 8.

Box 13: Explanatory comment relating to revenue for the disclosure year

Revenue was down on forecast (when compared to the same period i.e. the 2013/14 financial year) by \$298k. This was due predominantly to the mild winter and spring seasons resulting in a reduction of 7.4% in annual consumption by the consumers for whom the retailers are charged a variable throughput charge based on the gas consumed.

17. If price category codes or consumer groups (as applicable) have been changed in a disclosure year, please explain in the box below the effect of this on the allocation of ICPs, quantities and revenues between consumer groups disclosed in Schedule 8.

Box 14: Explanatory comment relating to changed price category codes or consumer groups

The M6 Load Group consumers has been disaggregated to those connections which were recorded as Active during the year (shown as 'M6 (Active)' in Schedule 8) and those that were Inactive (shown as 'M6 (Inactive)'). This is consistent with GasNet's Pricing Methodology and provided for compliance with the DPP when charges for the M6 (Inactive) ceased from 1 October 2013.

Network reliability for the disclosure year (Schedule 10a)

18. In the box below, comment on network reliability for the disclosure year, as disclosed in Schedule 10a.

Box 15: Commentary on network reliability for the disclosure year

During the period from 1 July 2013 to 31 December 2013 the reporting of network supply and integrity measures including SAID and SAIFI involved the same processes as the previous disclosure year. The information captured during this period was not easily traced back to the core data and this again proved difficult for GasNet to provide the traceability required for the Audit Assurance, as was the case in 2013.

The issues were identified during the 2013 audit and prompted an immediate review of our systems and processes. As a result of the review, reporting processes and recording systems changed in December 2013 to provide more precise and accurate information traceable back to individual job records. A Supply Interruption Register was created where all interruptions were recorded.

With the changes that have been implemented, including live capture of field data on Electronic Tablets into a work management system, changes to in-house processes and information systems to enable better traceability of data recorded, we are confident that there is a robust system in place that will provide the traceability that will meet audit assurance requirements in future years.

Insurance cover

19. In the box below provide details of any insurance cover for the assets used to provide gas pipeline services, including-
- 19.1 The GDB’s approaches and practices in regard to the insurance of assets, including the level of insurance;
- 19.2 In respect of any self insurance, the level of reserves, details of how reserves are managed and invested, and details of any reinsurance.

Box 16: Explanation of insurance cover

The consolidated cost of insurance cover specified in Schedule 6b: Report On Operational Expenditure For The Disclosure Year is disaggregated as follows;

Network Infrastructure Insurance	\$179,936.16
Vehicle Insurance	\$2,844.65
Other Company Policies	\$26,502.00
Total	<u>\$209,282.81</u>

There have been no changes in the nature or type of insurance policies from information previously disclosed to the Commission.

Company Name GasNet LimitedFor Year Ended 30 June 2014**Schedule 14a Mandatory Explanatory Notes on Forecast Information***(In this Schedule, clause references are to the Gas Distribution Information Disclosure Determination 2012)*

1. This Schedule requires GDBs to provide explanatory notes to reports prepared in accordance with clause 2.6.5.
2. This Schedule is mandatory—GDBs must provide the explanatory comment specified below, in accordance with clause 2.7.3. This information is not part of the audited disclosure information, and so is not subject to the assurance requirements specified in section 2.8.

Commentary on difference between nominal and constant price capital expenditure forecasts (Schedule 11a)

3. In the box below, comment on the difference between nominal and constant price capital expenditure for the disclosure year, as disclosed in Schedule 11a.

Box 1: Commentary on difference between nominal and constant price capital expenditure forecasts

The difference between nominal and constant price capital expenditure forecasts is due to forecast indexation being applied, based on the Change in CPI, 2 Index forecasts provided by the Commerce Commission in its Financial Model for the GPB DPP. As the Commissions data set only extended to December 2018 the remaining years were assumed to remain constant at 2%.

For Year Ended	Change in CPI, 2 index
Jun-15	2.21%
Jun-16	2.11%
Jun-17	2.00%
Jun-18	2.00%
Jun-19	2.00%
Jun-20	2.00%
Jun-21	2.00%
Jun-22	2.00%
Jun-23	2.00%
Jun-24	2.00%

Commentary on difference between nominal and constant price operational expenditure forecasts (Schedule 11b)

4. In the box below, comment on the difference between nominal and constant price operational expenditure for the disclosure year, as disclosed in Schedule 11b.

Box 2: Commentary on difference between nominal and constant price operational expenditure forecasts

The difference between nominal and constant price operational expenditure forecasts is due to forecast indexation being applied, based on the Change in CPI, 2 Index forecasts provided by the Commerce Commission in its Financial Model for the GPB DPP. As the Commissions data set only extended to December 2018 the remaining years were assumed to remain constant at 2%.

For Year Ended	Change in CPI, 2 index
Jun-15	2.21%
Jun-16	2.11%
Jun-17	2.00%
Jun-18	2.00%
Jun-19	2.00%
Jun-20	2.00%
Jun-21	2.00%
Jun-22	2.00%
Jun-23	2.00%
Jun-24	2.00%

Company Name	<u>GasNet Limited</u>
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For Year Ended	<u>30 June 2014</u>
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Schedule 15 Voluntary Explanatory Notes

(In this Schedule, clause references are to the Gas Distribution Information Disclosure Determination 2012)

1. This Schedule enable GDBs to provide, should they wish to:
 - 1.1 additional explanatory comment to reports prepared in accordance with clauses 2.3.1, 2.4.21, 2.4.22, 2.5.1, 2.5.2, and 2.6.5.
 - 1.2 information on any substantial changes to information disclosed in relation to a prior disclosure year, as a result of final wash-ups.
2. Information in this Schedule is not part of the audited disclosure information, and so is not subject to the assurance requirements specified in section 2.8.
3. Provide additional explanatory comment in the box below.

Box 1: Voluntary explanatory comment on disclosed information

Schedule 9a: Asset Register

The information provided in this schedule is sourced from data tables extracted from our Geographical Information System, or GIS.

A number of errors have been identified in the asset quantities that were disclosed in the 30 June 2013 but rather than bring over the erroneous closing quantities from 2013 as the opening quantities for 2014, the opening quantities have been corrected, and explained as follows:

- Intermediate Pressure DRS (Stations) – reduced from 17 to 13
- Medium Pressure DRS (Stations) – reduced from 32 to 17
- IP Crossings (Special Crossings) – increased from 17 to 19

The errors attributed to Stations were due to inclusion of non-network assets in the asset count, and IP Crossings due to incorrect asset status allocated to those assets.

With regards to Net Change quantities for MP and LP Service Pipe assets, the opening quantities from the 2013 disclosures omitted to include the length of service pipe assets in the vertical plane, known within GasNet as the “vertical component”. Whereas the GIS records provide accurate pipeline asset lengths in the horizontal plane, the vertical length of these assets where they rise up vertically must be accounted for separately. All service pipe assets have two length attributes, the length calculated by the GIS from the asset position, and a vertical length component. The vertical component typically applies where the service pipe rises up from below ground to the meter installation above ground at the consumer’s property. In the 2013 disclosures the total service pipe asset length did not include the vertical component length for these assets.

As a result the Net Change attributed to the previously omitted vertical component lengths are as follows:

- MP PE Service Pipe – 3km of the 4km reported
- LP PE Service Pipe – 9km of the 9km reported

As a final note, the above errors have been corrected in the GIS records ensuring future quantities reflect these corrections.